

## Internal Revenue Service, Treasury

## § 1.665(e)-1

received directly from a foreign trust created by a U.S. person.

(b) *Limitation.* In the case of a distribution to a beneficiary who is a U.S. person, paragraph (a) of this section does not apply if the distribution is received by such beneficiary under circumstances indicating lack of intent on the part of the parties to circumvent the purposes for which section 7 of the Revenue Act of 1962 (76 Stat. 985) was enacted.

[T.D. 6989, 34 FR 735, Jan. 17, 1969]

### § 1.665(d)-1 Taxes imposed on the trust.

(a) For the purpose of subpart D (section 665 and following), part I, subchapter J, chapter 1 of the Code, the term *taxes imposed on the trust* means (for any taxable year) the amount of Federal income taxes which are properly allocable to the undistributed portion of the distributable net income. This amount is the difference between the total taxes of the trust for the year and the amount which would have been paid by the trust had all of the distributable net income, as determined under section 643(a), been distributed. Thus, in determining the amount of taxes imposed on the trust for the purposes of subpart D, there is excluded the portion of the taxes paid by the trust which is attributable to items of gross income which are not includible in distributable net income, such as capital gains allocable to corpus. The rule stated in this paragraph may be illustrated by the following example:

*Example.* (1) Under the terms of a trust which reports on the calendar year basis the income may be accumulated or distributed to A in the discretion of the trustee and capital gains are allocable to corpus. During the taxable year 1954, the trust had income of \$20,000 from royalties, long-term capital gains of \$10,000, and expenses of \$2,000. The trustee in his discretion made a distribution of \$10,000 to A. The taxes imposed on the trust for the purposes of this subpart are \$2,713, determined as shown below.

(2) The distributable net income of the trust computed under section 643(a) is \$18,000 (royalties of \$20,000 less expenses of \$2,000). The total taxes paid by the trust are \$3,787, computed as follows:

Royalties .....	\$20,000
Capital gains .....	10,000
Gross income .....	30,000

Deductions:	
Expenses .....	\$2,000
Distributions to A .....	10,000
Capital gain deduction .....	5,000
Personal exemption .....	100
	17,100
Taxable income .....	12,900
Total income taxes .....	3,787

(3) The amount of taxes which would have been paid by the trust, had all of the distributable net income (\$18,000) of the trust been distributed to A, is \$1,074, computed as follows:

Taxable income of the trust .....	\$12,900
Less: Undistributed portion of distributable net income (\$18,000 - \$10,000) .....	8,000
Balance of taxable income .....	4,900
Income taxes on \$4,900 .....	1,074

(4) The amount of taxes imposed on the trust as defined in this paragraph is \$2,713, computed as follows:

Total taxes .....	\$3,787
Taxes which would have been paid by the trust had all of the distributable net income been distributed .....	1,074
Taxes imposed on the trust as defined in this paragraph .....	2,713

(b) If in any subsequent year an accumulation distribution is made by the trust which results in a throwback to the taxable year, the taxes of the taxable year allocable to the undistributed portion of distributable net income (the taxes imposed on the trust), after the close of the subsequent year, are the taxes prescribed in paragraph (a) of this section reduced by the taxes of the taxable year allowed as credits to beneficiaries on account of amounts deemed distributed on the last day of the taxable year under section 666. See paragraph (f)(4) of § 1.668(b)-2 for an illustration of the application of this paragraph.

[T.D. 6500, 25 FR 11814, Nov. 26, 1960. Redesignated by T.D. 6989, 34 FR 735, Jan. 17, 1969]

### § 1.665(e)-1 Preceding taxable year.

(a) *Definition.* For purposes of subpart D (section 665 and following), part I, subchapter J, chapter 1 of the Internal Revenue Code of 1954, the term *preceding taxable year* does not include any taxable year to which such part I does not apply. See section 683 and regulations thereunder. Accordingly, the provisions of such subpart D may not, in general, be applied to any taxable year which begins before 1954 or ends before